

FDIC State Profile

Spring 2006

Maryland and Washington, D.C.

Maryland's rate of job growth has stabilized and now matches the nation; job gains have been broadly distributed across salary ranges and industries.

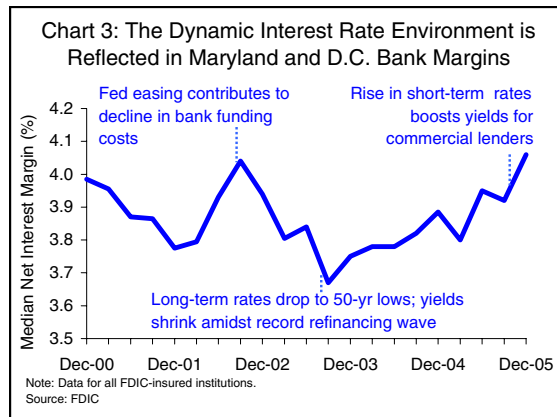
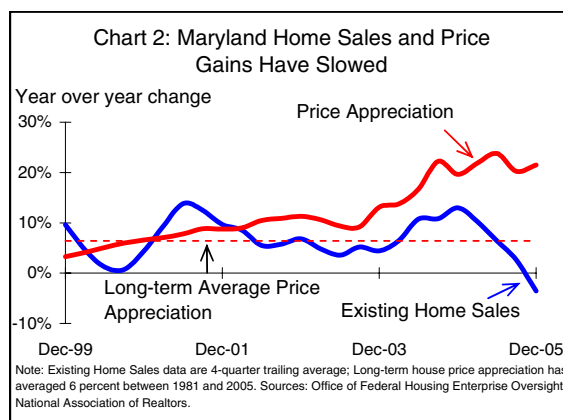
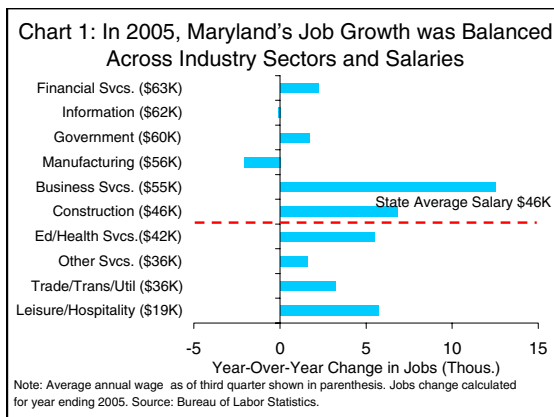
- Maryland's job growth rate stabilized in the second half of 2005; the state's 1.4 percent fourth quarter rate approximated the national average. Job gains in the state's professional and business services (accountants and lawyers), hotels and restaurants, and construction sector continued to propel employment growth.
- At approximately 2 percent, job growth was strongest (and above the U.S. average) in **Baltimore, Bethesda and Washington, D.C.**, all of which continued to experience a broad-based job expansion. Growth rates were also above the U.S. average in **Cumberland**, reflecting gains in education and health services, and retailing.

Job gains in the state were distributed across industries and salary ranges in 2005.

- During 2005, 37,000 net new jobs were created in Maryland, the highest annual amount in five years and the state's thirteenth consecutive year of job gains. With average salaries about 20 percent above the state average, business and professional services accounted for the largest share of net new jobs (see Chart 1).
- The state's education and health services, trade, and leisure and hospitality sectors also had healthy job gains, which collectively represented 39 percent of Maryland's net new jobs. These new jobs reflect the in-migration and growing health needs of aging baby boomers, increased tourism and an improved retail sector. Average salaries in these sectors were below the state average.

Maryland's home appreciation remained strong, despite a growing inventory of unsold homes.

- Home prices continued to rise at a strong pace in Maryland. In fourth quarter 2005 average home appreciation in the state was 21.5 percent, fifth highest in the nation. All of Maryland's metro areas continued to report above-average appreciation compared with the nation, and home appreciation in Salisbury reached an all-time high of 24 percent.¹



¹Office of Federal Housing Enterprise Oversight.

- However, several signs suggest that the pace of housing activity in the state has moderated from accelerated pace. Maryland's rate of existing home sales has declined, while the trajectory of price appreciation stabilized in the second half of 2005 but well above the state's long-term average (see Chart 2). These trends coincide with a growing inventory of homes for sale, which has doubled in Montgomery, Prince George's, Anne Arundel, and the Baltimore-area markets in the past year.
- A slowdown in home sales and higher inventory levels could potentially lead to an easing in home appreciation rates in Maryland.

FDIC-insured institutions in Maryland and Washington, D.C. reported higher profitability in 2005.

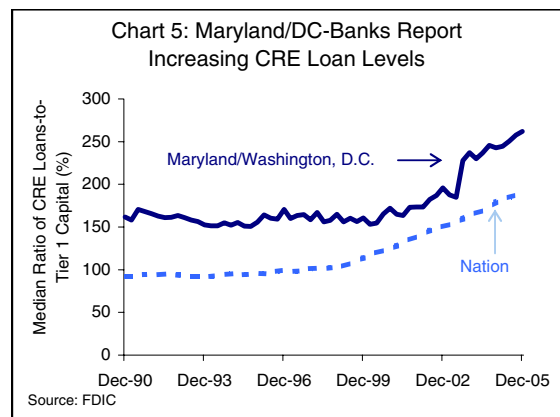
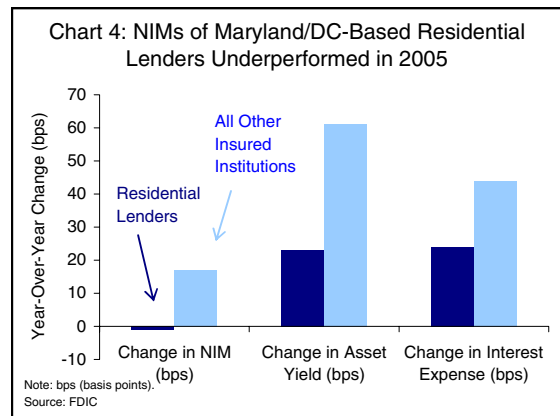
- Profitability increased moderately in 2005 reflecting strong loan growth and very favorable credit quality conditions. Maryland's loan growth rate reached 13 percent in 2005, ranking 10th highest among states nationwide.
- Past-due loans composed less than 1 percent of all loans, below the national level of 1.3 percent. Net interest margins (NIMs) increased in 2005 despite the flattening yield curve environment.
- Several interest rate events have helped shape state margin trends in recent years (see Chart 3). During the 2001 recession, NIMs widened as short-term interest rates declined at a pace not seen in 20 years, helping banks to reduce funding costs. Subsequently, long-term rates dropped to 50-year lows spurring a record residential mortgage refinancing wave and pushing bank asset yields and NIMs lower. Since the refinancing wave, margins have rebounded, reflecting strong commercial real estate (CRE) loan growth amidst increasing short- and intermediate-term interest rates.
- While the margins of many banks improved in 2005, the NIMs of residential lenders underperformed amidst the flat yield curve (see Chart 4).
- Residential lenders, which compose 27 percent of Maryland- and Washington, D.C.-based institutions compared with 10 percent nationally, typically rely heavily on the spread between long- and short-term interest rates. As a result, these institutions are unlikely to experience margin expansion if the flat yield curve environment continues.

CRE loan concentration levels have increased.

- Maryland- and Washington, D.C.-based institutions have reported increasing levels of CRE loans in recent years and concentrations have risen relative to the nation (see Chart 5). Higher CRE loan concentrations have been

driven in part by active construction lending among banks on Maryland's eastern shore. Strong construction loan growth in this area reflects spillover of housing demand from higher priced markets in and around Washington, D.C.

- The fourth quarter 2005 median past due ratio of CRE loans reported by Maryland-based institutions was 0.30 percent, double the year-ago amount, but still below the national average of 0.46 percent.



Maryland and Washington, D.C. at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.4%	1.4%	1.5%	1.2%	0.3%
Manufacturing (6%)	-2.0%	-1.9%	-1.0%	-2.9%	-6.1%
Other (non-manufacturing) Goods-Producing (7%)	3.2%	3.7%	4.6%	5.0%	1.2%
Private Service-Producing (69%)	1.8%	1.7%	1.6%	1.6%	1.0%
Government (18%)	0.5%	0.4%	0.9%	0.1%	-0.5%
Unemployment Rate (% of labor force)	4.0	4.2	4.3	4.3	4.5

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	6.6%	8.1%	6.7%	3.9%
Single-Family Home Permits	4.2%	6.5%	-0.6%	-5.8%	-1.4%
Multifamily Building Permits	-52.6%	-8.2%	26.1%	26.8%	11.4%
Existing Home Sales	-11.5%	-3.0%	13.7%	16.4%	2.7%
Home Price Index	21.5%	20.2%	19.6%	18.2%	10.6%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	8.25	5.84	4.87	5.22	6.12

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	120	121	122	122	127
Total Assets (in millions)	51,825	51,367	47,124	47,124	43,562
New Institutions (# < 3 years)	8	8	6	6	3
Subchapter S Institutions	4	4	4	4	2

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.89	0.88	0.93	0.93	1.14
ALLL/Total Loans (median %)	0.93	0.91	0.95	0.95	1.00
ALLL/Noncurrent Loans (median multiple)	3.23	2.50	2.23	2.23	1.82
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.01	0.04

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	9.55	9.63	9.27	9.27	9.30
Return on Assets (median %)	0.93	0.97	0.83	0.83	0.83
Pretax Return on Assets (median %)	1.31	1.48	1.17	1.17	1.16
Net Interest Margin (median %)	4.06	3.92	3.89	3.74	3.67
Yield on Earning Assets (median %)	6.04	5.85	5.47	5.31	5.54
Cost of Funding Earning Assets (median %)	2.24	2.09	1.74	1.65	1.93
Provisions to Avg. Assets (median %)	0.03	0.03	0.03	0.06	0.05
Noninterest Income to Avg. Assets (median %)	0.44	0.48	0.50	0.49	0.60
Overhead to Avg. Assets (median %)	2.93	2.73	2.84	2.75	2.68

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	69.6	70.4	69.6	69.6	66.8
Noncore Funding to Assets (median %)	22.0	22.3	20.5	20.5	18.9
Long-term Assets to Assets (median %, call filers)	17.6	18.2	19.8	19.8	20.9
Brokered Deposits (number of institutions)	39	40	34	34	22
Brokered Deposits to Assets (median % for those above)	4.0	4.1	3.7	3.7	5.3

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	65.0	53.6	65.6	65.6	55.2
Commercial Real Estate	261.8	257.7	242.6	242.6	237.1
<i>Construction & Development</i>	56.7	57.9	50.8	50.8	41.9
<i>Multifamily Residential Real Estate</i>	4.7	3.0	2.9	2.9	2.3
<i>Nonresidential Real Estate</i>	136.3	146.7	136.4	136.4	134.5
Residential Real Estate	294.9	305.6	318.8	318.8	327.9
Consumer	14.0	13.6	19.8	19.8	19.5
Agriculture	0.7	0.3	1.3	1.3	3.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Washington-Arlington-Alexandria, DC-VA-MD-WV	103	130,985	< \$250 million	73 (60.8%)
Baltimore-Towson, MD	90	43,864	\$250 million to \$1 billion	38 (31.7%)
Hagerstown-Martinsburg, MD-WV	16	2,798	\$1 billion to \$10 billion	9 (7.5%)
Cumberland, MD-WV	7	826	> \$10 billion	0 (0%)